

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Discussion on Pension Protection and Market Reform

ITEM NUMBER: 6

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: July 9, 2003

INFORMATION: X

PRESENTER(S): Philip Angelides

Executive Summary

At the June 4, 2003 Subcommittee on Corporate Governance meeting, Mr. Philip Angelides requested that discussion of the Office on Pension Protection and Market Reform (PP&MR) be agendized in the July 2003 Investment Committee meeting.

Since his initial proposal of the establishment of the PP&MR office on March 6, 2003, Mr. Angelides, after input, comments and suggestions from a variety of individuals and entities, disseminated a subsequent proposal to the Board members detailing how this new office would be structurally and mechanically established. The summary, labeled Attachment 1, is included for discussion.

PHILIP ANGELIDES
Treasurer
State of California

May 30, 2003

As you know, on March 6, 2003, I proposed that the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) jointly create an Office of Pension Protection and Market Reform (Office). Since then, I have received comments and input from a variety of individuals and entities.

Several have inquired as to how the Office would be structurally established, particularly in light of the fact that it would be jointly established by the two systems. The attached summary lays out the mechanics of the Office, and reflects comments and suggestions we have received to date.

Should you have any questions, please call me or Ted Eliopoulos, Deputy Treasurer, at (916) 653-2995. Thank you for your continued interest. I look forward to our future discussions on this proposal.

Sincerely,

/signed

Phil Angelides
State Treasurer

Enclosures



OFFICE OF PENSION PROTECTION AND MARKET REFORM (OFFICE)

Objectives

- Establish the Office to provide an effective, coordinated, cost-efficient structure for the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) to pursue joint corporate governance/reform activities.
- To enhance the ability of CalPERS and CalSTRS to seek redress and restitution for harm done and losses caused by corporate malfeasance; help protect pensioners from future misconduct; and pursue corporate and financial market reforms necessary to return and maintain integrity in the marketplace.

Proposal

Existing Corporate Governance and Reform Efforts Continue

- CalPERS and CalSTRS would each continue to pursue its own corporate governance/reform activities on behalf of each respective system.
- CalPERS and CalSTRS would each retain its own corporate governance/reform staff within each system.

Formation of the Office

- The Office would be created by an interagency agreement approved by the respective boards of CalPERS and CalSTRS. Each board would authorize its CEO to draw up the interagency agreement, subject to the general terms and conditions outlined below, to be ratified by each board.
- The interagency agreement would provide for (1) the hiring of a director; (2) the limited, necessary support staff to perform the work of the Office; and (3) consultants as needed and as provided for in an approved business plan.

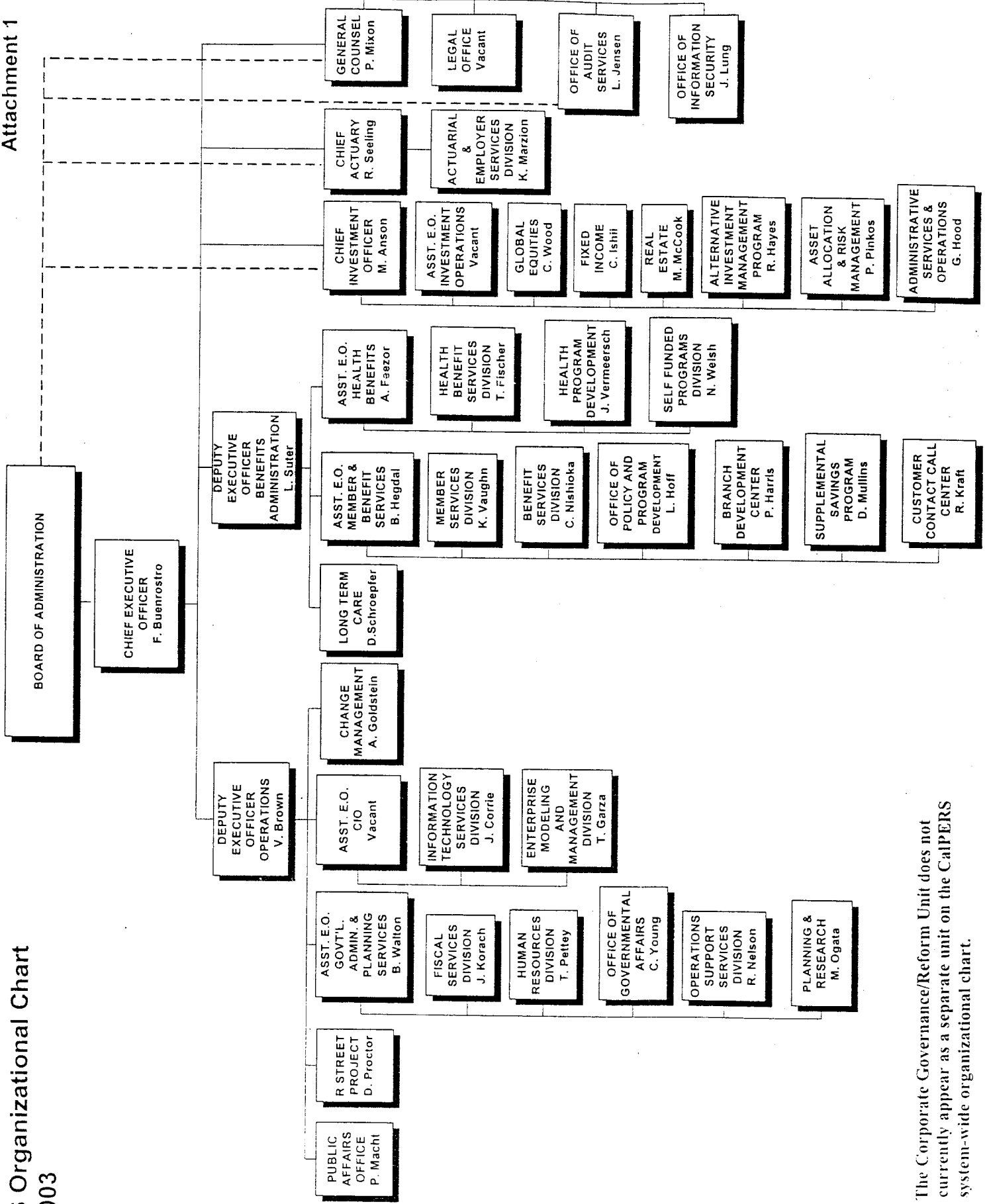
Mission and Organization

- The Office would pursue joint efforts on behalf of CalPERS and CalSTRS, as approved by the investment committee of each board, which would allow for greater efficiency, collaboration, and a more powerful message to the marketplace.

- The Director would submit an annual business plan regarding joint efforts to the investment committee of each board for approval. The annual plan would include a review of the corporate governance/reform activities at both systems and recommendations to eliminate duplication of efforts and to streamline operations.
- In addition, each investment committee could recommend projects for joint action at any time for review by the Office.
- Once the business plan is approved by both boards, and as additional joint projects/actions are approved from time to time, the Director would coordinate the joint projects/actions with the corporate governance/reform staff of both systems.
- An ad-hoc committee would be created to provide oversight to the Office on those issues previously approved by the investment committees of both boards. The ad-hoc committee would be comprised of three members of each respective board. The ad-hoc committee and Director would provide periodic reports to each respective investment committee.
- The Director would report to the ad-hoc committee and the CEO of each system. To make the Office more effective from an operational perspective, it is assumed that the ad-hoc committee would provide direction on high-level policy issues, and each CEO would address administrative issues.
- At the discretion of either board, it would be possible to terminate the interagency agreement and/or the Director.
- The total cost of the Office, and the corporate governance/reform activities directed by the Office, would be set out in the interagency agreement and the annual business plan. The cost would be equitably shared between both systems based upon the proportion of their respective assets to the combined assets of both systems.

CalPERS Organizational Chart March 2003

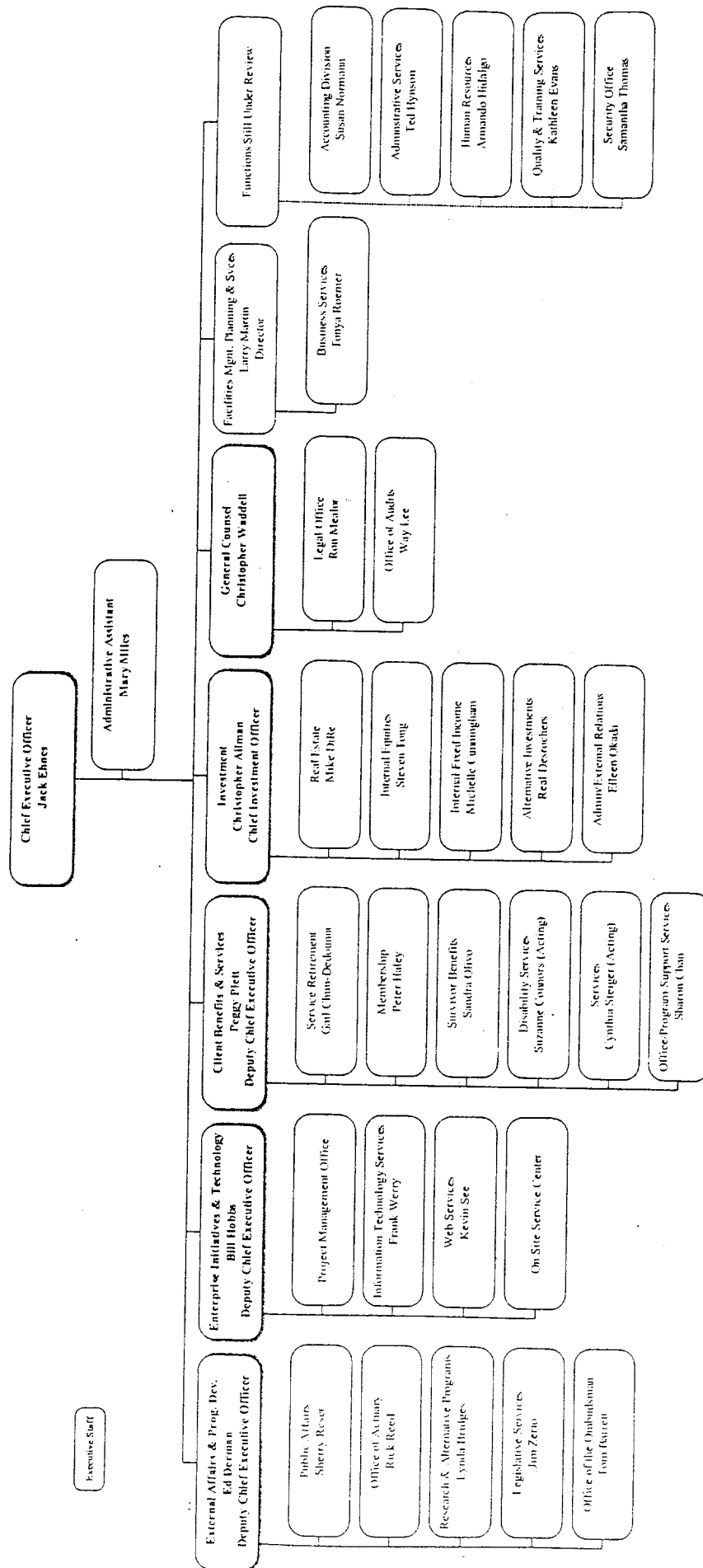
Attachment 1



Note: The Corporate Governance/Reform Unit does not currently appear as a separate unit on the CalPERS system-wide organizational chart.

CalSTRS Organization Chart

January 24, 2003



01-24-03

Note: The Corporate Governance/Reform Unit does not currently appear as a separate unit on the CalSTRS system-wide organizational chart.

Office of Pension Protection and Market Reform Proposed Organizational Structure/Interagency Agreement

